

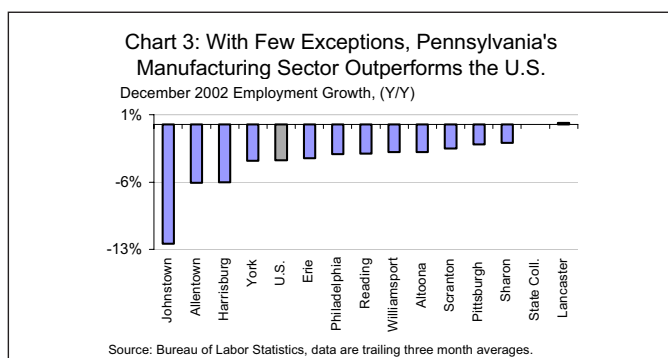
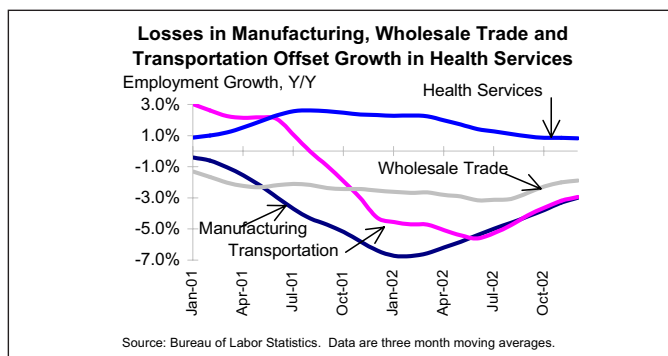
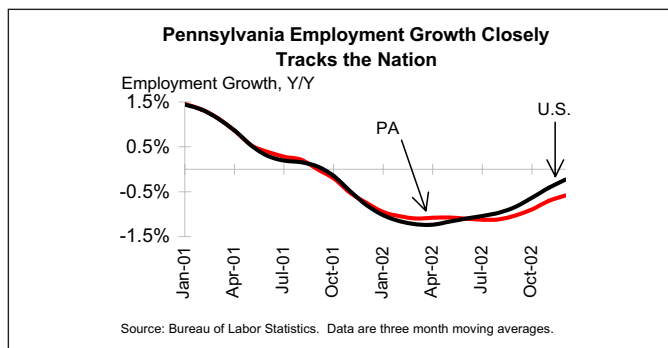
# FDIC State Profile

SPRING 2003

## Pennsylvania

Pennsylvania's labor market closely tracks the national economy, primarily because the Pittsburgh and Philadelphia MSAs have reduced their dependence on manufacturing compared with prior cycles.

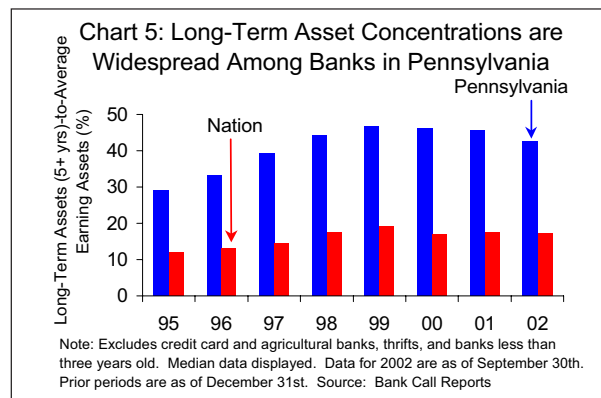
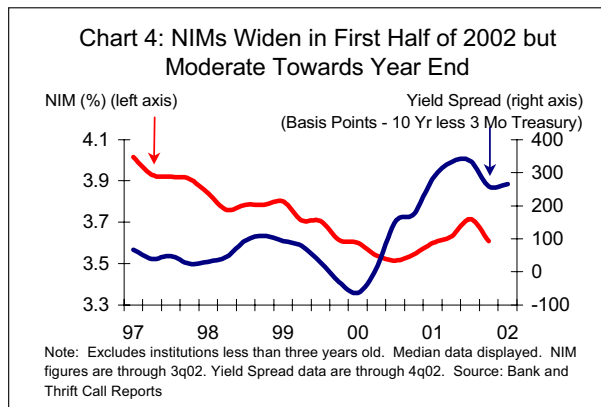
- Pennsylvania's labor market, which is dominated by **Philadelphia** and **Pittsburgh**, continued to closely track the nation's through December 2002 (**chart 1**). In contrast to prior cycles, increased industrial diversity has benefited the state economy during this economic downturn. Weakness in the state's manufacturing, transportation and wholesale trade industries has been partially offset by job growth in the healthcare sector (**chart 2**).
- Pennsylvania's manufacturing sector has experienced negative job growth since August 2000, although the rate of job decline has slowed. According to the Federal Reserve Bank of Philadelphia's January 2003 Business Outlook Survey, conditions have improved in the region as the index of manufacturing activity remained positive for the last three months and new orders increased for the past thirteen months.
- The slowdown in the manufacturing sector has negatively affected downstream industries such as wholesale trade and transportation. Pennsylvania's transportation industry, primarily airline and trucking sub-sectors, is pro-cyclical and has been adversely affected by declining demand. Statewide, employment in air transportation fell by 7.4 percent in fourth quarter, 2002, a slight improvement over prior quarters. US Air, the nation's 6th largest carrier, filed for bankruptcy in August 2002 and announced plans to lay off roughly 1,400 workers at the Pittsburgh, Philadelphia and **Charlotte**, N.C. hubs. Job cuts have also occurred in the **Harrisburg** trucking industry.
- Most of the state's metropolitan areas experienced stronger manufacturing job growth than the nation, however, some smaller areas still lag (**chart 3**). Higher relative labor costs and lower levels of educational attainment pose substantial obstacles to smaller areas attracting new businesses and related employment.
- Office market conditions in Philadelphia and Pittsburgh weakened in 2002, similar to national trends. The office vacancy rate in Philadelphia, however, stabilized after rising over the past two years. In fourth quarter 2002, the estimated vacancy rate for the metropolitan area was 15.8 percent, down from 16.4 percent in third quarter 2002. The office vacancy rate in the Pittsburgh metropolitan



area remained stable at 16.8 percent in fourth quarter 2002, modestly above the 16.5 percent national statistic, though it is not expected to peak until first quarter, 2003. Vacancy rates were higher in both Pittsburgh's and Philadelphia's suburbs, the latter reflecting a combination of new space and soft office demand.

Net interest margins (NIMs) widened among Pennsylvania's insured institutions in the first half of 2002, but margin compression resumed in third quarter 2002.<sup>1</sup>

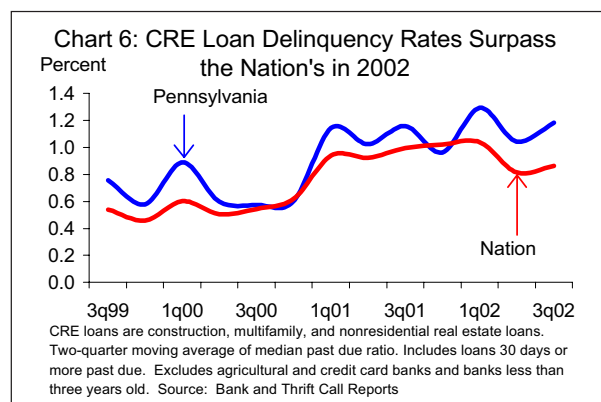
- Following four consecutive quarters of improvement, the median NIM declined from 3.72 percent in second quarter 2002 to 3.61 percent in the third quarter (**chart 4**). The yield curve flattened as long-term interest rates neared historic lows and short-term interest rates stabilized. Consequently, the median asset yield declined while funding costs stabilized.
- In fourth quarter 2002, short-term interest rates declined, which typically would be followed by reductions in banks' funding costs. However, funding costs are already near historic lows, limiting the potential for further reductions in bank deposit rates and for further significant improvement in NIMs.
- Low long-term interest rates have contributed to record refinancing levels nationally as consumers have locked in long-term, fixed-rate mortgage loans. Asset maturities have remained long, while liability maturities have remained short.
- The median ratio of long-term assets-to-earning assets among insured institutions headquartered in Pennsylvania remains well above that of the rest of the nation (**chart 5**). A large number of residential lenders in Pennsylvania coupled with more widespread use of long-term mortgage products in the Northeast contributed to the higher ratio. Insured institutions with high concentrations of long-term assets may face margin compression if interest rates



rise, thereby heightening the importance of proper interest rate risk management practices.

Credit quality among insured institutions headquartered in Pennsylvania has remained favorable during this economic downturn. However, the state's median commercial real estate (CRE) loan delinquency rate has increased and now exceeds the nation's.

- Median past-due loan ratios among Pennsylvania's insured institutions remains lower than those of the nation across loan categories, except for CRE loans. The median past-due CRE loan ratio has increased during the past year and exceeds the national level (**chart 6**). However, CRE loan delinquency rates remain well below levels of a decade ago on average. Furthermore, CRE loan exposure among insured institutions in Pennsylvania is below the national average. The median ratio of CRE loans-to-capital is 130 percent among insured institutions in Pennsylvania compared with 180 percent for the nation.
- Nevertheless, as credit quality typically lags the business cycle, CRE loan delinquency levels may continue to increase even as CRE markets begin to improve.



<sup>1</sup> Data are as of September 30, 2002, unless otherwise noted.

## Pennsylvania at a Glance

<b>General Information</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Institutions (#)	285	295	309	311	318
Total Assets (in thousands)	283,423,599	265,667,905	274,357,836	259,924,068	258,176,416
New Institutions (# < 3 years)	9	20	17	17	6
New Institutions (# < 9 years)	30	28	27	25	16
<b>Capital</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Tier 1 Leverage (median)	9.05	9.18	9.35	9.46	9.65
<b>Asset Quality</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Past-Due and Nonaccrual (median %)	1.58%	1.65%	1.47%	1.59%	1.93%
Past-Due and Nonaccrual ≥ 5%	22	24	21	19	21
ALLL/Total Loans (median %)	1.10%	1.07%	1.05%	1.04%	1.10%
ALLL/Noncurrent Loans (median multiple)	1.46	1.41	1.60	1.53	1.41
Net Loan Losses/Loans (aggregate)	0.51%	0.42%	0.23%	0.22%	0.35%
<b>Earnings</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Unprofitable Institutions (#)	23	26	21	25	14
Percent Unprofitable	8.07%	8.81%	6.80%	8.04%	4.40%
Return on Assets (median %)	0.96	0.86	0.93	0.96	1.06
25th Percentile	0.63	0.56	0.61	0.69	0.72
Net Interest Margin (median %)	3.63%	3.50%	3.68%	3.75%	3.94%
Yield on Earning Assets (median)	6.52%	7.42%	7.64%	7.39%	7.74%
Cost of Funding Earning Assets (median)	2.90%	3.95%	4.00%	3.66%	3.86%
Provisions to Avg. Assets (median)	0.10%	0.09%	0.09%	0.09%	0.11%
Noninterest Income to Avg. Assets (median)	0.47%	0.46%	0.44%	0.42%	0.40%
Overhead to Avg. Assets (median)	2.51%	2.55%	2.53%	2.58%	2.65%
<b>Liquidity/Sensitivity</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Loans to Deposits (median %)	77.02%	80.09%	84.26%	80.88%	79.83%
Loans to Assets (median %)	60.85%	63.38%	65.83%	64.43%	64.46%
Brokered Deposits (# of Institutions)	34	30	32	23	26
Bro. Deps./Assets (median for above inst.)	1.98%	1.77%	2.35%	1.56%	1.73%
Noncore Funding to Assets (median)	17.43%	17.17%	17.74%	15.66%	12.45%
Core Funding to Assets (median)	70.51%	69.82%	70.16%	72.28%	74.68%
<b>Bank Class</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
State Nonmember	66	66	66	67	64
National	80	84	93	94	109
State Member	28	31	31	33	31
S&L	34	34	37	37	39
Savings Bank	26	30	32	31	30
Mutually Insured	51	50	50	49	45
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
Philadelphia PA-NJ PMSA	82	52,840,792	28.77%	18.64%	
No MSA	66	27,409,282	23.16%	9.67%	
Pittsburgh PA	48	119,536,364	16.84%	42.18%	
Harrisburg-Lebanon-Carlisle PA	19	11,359,542	6.67%	4.01%	
Scranton—Wilkes-Barre—Hazleton PA	15	5,219,740	5.26%	1.84%	
Allentown-Bethlehem-Easton PA-NJ	15	5,706,491	5.26%	2.01%	
Lancaster PA	9	8,454,295	3.16%	2.98%	
Johnstown PA	8	2,213,145	2.81%	0.78%	
Reading City PA	5	42,996,542	1.75%	15.17%	
Williamsport PA	4	1,022,331	1.40%	0.36%	
Altoona PA	4	583,353	1.40%	0.21%	
York PA	3	1,076,183	1.05%	0.38%	
Sharon PA	3	4,224,809	1.05%	1.49%	
Erie PA	3	602,440	1.05%	0.21%	
State College PA	1	178,290	0.35%	0.06%	